

ECONOMIC POLICY AND ECONOMIC PROGRESS

IN THE USSR

The purpose of this talk is to discuss with you Soviet economic strategy and policy and the development of the Soviet economy. This subject is particularly appropriate at a time when the USSR is openly challenging the US in the fields of industry, agriculture, and foreign trade, as well as in the military field. But before tackling these current developments, I should like to discuss Soviet economic policy in general, and to describe the progress the USSR has made to date in expanding its economy.

The basic theme of Soviet economic policy has from the very beginning been forced draft industrialization at the fastest possible pace. Stalin made no bones about the reasons for this policy. Russia, he said, had been beaten many times in the past because of her backwardness. For its own safety, therefore, the USSR had to close the gap between its own economic development and that of the more advanced capitalist countries. Only then, he said, would it be possible for the USSR to devote resources to improving living standards in any serious way.

The policies and procedures adopted by the USSR to achieve industrialization are far different from those employed in the US and Western Europe. In the Western capitalist countries, the means of production are privately owned, but in the USSR the State owns practically all means of production. Even more important is the contrast between the way we and they organize and carry out our economic activities. In the US the primary objective of economic activity is to increase consumer welfare.

The allocation of resources is accomplished by the decisions of individuals. People decide how much to spend and how much to save. These decisions in turn become demands for various types of goods in the market place and are reflected in the structuring of the entire economy. It is not surprising that this kind of economy utilizes a high proportion of its annual output for consumption, because such a pattern follows naturally from the sovereignty of the consumer. In the Soviet Union, by contrast, the economy is shaped to serve the needs of the State and not of the people. The Communist leaders decide how they want resources allocated and then proceed to do so through the mechanism of detailed plans and rigid controls. With only recent modifications, resources have been allocated so as to promote the maximum possible growth of heavy industry and the military establishment, and to hold down consumption.

In terms of the objectives of the Communist leaders, Soviet policy has been a resounding success. One way to show this success is to take a look at the USSR Gross National Product, which is simply the sum total of all the goods and services produced in a given year. (Briefing Aid -- Comparison of Gross National Product -- US-USSR). In 1950, Soviet GNP was 33% that of the US. By 1955 it had grown to 37% and in 1957 to 41% of the US. By 1962, we expect that it will be close to 50%. The growth of Soviet GNP has been at the rate of between 6 and 7 percent per year, or about twice that of the US. Industrial production shows about the same picture. Soviet industrial production has been growing at the rate of 11 or 12 percent per year, or almost twice the rate of growth of the US.

Another way to look at Soviet economic growth is to examine the production of individual commodities. (Briefing Aid -- Production of Selected

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Capital and Consumer Goods). In 1928 the USSR produced about 35 million tons of coal, 2,000 machine tools and 4 million tons of steel. In 1957, coal production was 463 million tons, or 13 times the 1928 production, machine tool production 130,000 units or 65 times greater than in 1928, and steel production 51 million tons, or 12 times the 1928 production.

How were the Soviets able to achieve this remarkable rate of industrial growth? First of all, the Russians had the potential for large-scale industrialization all along; the USSR is a big country with a large population and abundant supplies of raw materials. Moreover, although Russia was a relatively underdeveloped country at the time of the Communist take-over, it had begun to industrialize in the years immediately preceding World War I. As a result, the Communists inherited a small but not insignificant industry from the Tsarist regime, plus limited supplies of trained manpower. In some fields, Russian scientists and technicians were as good as any in the world. Starting with these assets, the Communist leaders applied a number of measures to promote rapid growth. The five most important were probably as follows:

1. They transferred millions of workers from agriculture to industry,
2. They trained these workers in modern skills and technology,
3. They embarked on a prodigious effort to produce scientists, engineers, technicians and other specialists,
4. They diverted an unusually large portion of GNP to investment, and,
5. They concentrated their investment in heavy industry.

Although these measures were effective in promoting rapid industrialization,

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they had another effect -- they produced an extremely lopsided economy, which the Soviets have only recently begun to do something about. By lopsided I mean an economy that did not experience balanced development. Instead, there was extremely rapid growth in the sector to which the Soviet leaders gave priority, and neglect of the other sectors of the economy. Agriculture, for example, was for many years treated as a step-child. It was used as a source of labor and capital for industry and denied the resources, particularly of investment funds, needed for its own development. As a result, as late as 1954, grain output was scarcely greater than before World War I on the same territory. Live-stock herds, which had been depleted by the ravages of collectivization and war, had not yet returned to the level of 1928. In 1954, for the first time in history, the Sino-Soviet Bloc as a whole was a net importer of food stuffs.

The picture in the industries producing consumer goods was scarcely any better. (Briefing Aid -- Production of Selected Capital and Consumer Goods). Although the production of consumer items increased during the period of Soviet power, the rate of growth was much slower than for the products of heavy industry. As in the case of agriculture, investment in the consumer industries was neglected in favor of heavy industry and the military establishment. Thus, although the Soviet consumer experienced increases in his level of living, these increases were not very great, and left the average Soviet consumer much less well off than his counterpart in the US or in most of Western Europe.

A few other statistics will also show the lopsided growth of the Soviet economy. (Briefing Aid -- Comparison of US and USSR Gross National

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product and of expenditures for consumption, investment and the military establishment). In the year 1956, the GNP of the USSR was 39% that of the US. In that same year, consumption expenditures were only 25% those of the US, but investment expenditures were 35%. Their military effort measured in dollars was about the same as that of the US. The over-all investment percentage hides another important point; as compared with the US, a much smaller proportion of Soviet investment went into the consumer industries. Investment funds were plowed primarily into an expansion of fuels and raw materials and into the producers goods industries. The great Soviet emphasis on these fields is shown by the fact that in 1958, Soviet investment in manufacturing, mining, and public utilities is expected to exceed our own. This comparison includes investment in light industry and consumer industries, but excludes commercial investment and housing.

To sum up this portion of the discussion, the Soviet Union over the past 30 years has achieved a very rapid rate of economic growth, particularly in heavy industry. Starting from a position as one of the least advanced of the industrial countries, it has progressed to a point where its production machine is second only to that of the US; its GNP is greater than that of the UK, West Germany and France combined. The growth of the Soviet economy has been a lopsided one, but this lopsidedness was planned that way. Judged by the objectives which the Soviet leaders pursued, Soviet economic policy was a great success.

I stated earlier that the basic theme of Soviet economic policy has been forced draft industrialization at the fastest possible pace. Fundamentally, this statement still holds true. But if it is possible to say

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that this is the basic theme of Soviet economic policy, it is also possible to say that there have recently been significant variations on this theme. These variations may be roughly classified as those internal to the Soviet economy and those which affect Soviet economic relations with the rest of the world. I shall discuss both in that order.

The first development of those I have labeled internal is really a new focus to the old drive for industrialization. That is, Soviet leaders have in a number of recent speeches challenged the US to competition in economic growth. They have expressed their determination to catch up with and surpass the US in per capita production, not only in the products of heavy industry, but in agricultural commodities and consumer goods as well. They have called this the main economic task of the USSR.

What does the USSR hope to accomplish by catching up with the US in per capita production? It is probably best to let the Soviet leaders speak for themselves on this point. First, I quote Khrushchev:

"The victory of a social order will be solved not by rockets, nor by atomic or hydrogen bombs, but by the social order which insures more material and spiritual good for humanity."

Again Khrushchev:

"Our main efforts will be directed toward winning the competition in economic development . . . the time is not far off when the Soviet Union will be economically ahead of the US and we shall provide a higher standard of living for our people. And this will convince all people still more of the advantages of the socialist system over the capitalist."

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And finally by Frank:

"The enemies of Socialism are beginning to realize that the struggle has now moved mainly to the economic field. On the outcome of the economic competition between the two systems will depend the outcome of the struggle of socialism and capitalism. V.I. Lenin wrote that the longer it lasts, the stronger will be the influence of our economic successes on the course of world history."

The Soviet objective, then, is perfectly clear. Soviet leaders believe that if the USSR can defeat the US in economic competition, the victory of socialism over capitalism will inevitably follow.

The goal of catching up with the US in per capita production is not, surprisingly enough, a really new one. Even before the October Revolution of 1917, Lenin told his followers that the building of socialism and the advancement to Communism depended on the powerful development of productive forces, and on catching up to and surpassing the most developed capitalist countries in per capita production. The big difference is that in those days hardly anyone took such challenges seriously. Now that the USSR has become the second most important industrial country in the world, these challenges must be taken very seriously indeed.

It does not take much reading of the newspapers, incidentally, to conclude that American officials are in fact taking the Soviet economic challenges seriously. In a speech of May 6, 1956, President Eisenhower stated that international Communism posed a broader and more subtle threat than it had the year before. Actually, he stated, had the Soviet Union built a tremendous military machine, but it was also turning more to economic and political weapons. Our Director, in a recent speech, said

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the following:

"I do not mean to discount the seriousness of the Soviet military threat or its challenge in the scientific and technical fields . . . But as I see it, under its present policy, the USSR does not intend to use its military power in such a way as to risk a general war . . . It is most probable that the fateful battles of the cold war will, in the foreseeable future, be fought in the economic and subversive arenas."

The second new internal development is a modification of the system of priorities, which until recently gave heavy industry overriding priority over other sectors of the economy. These changes have given agriculture, the consumer industries, and housing a more prominent place in the scheme of things. Whereas Soviet leaders used to speak of the priority development of heavy industry, they now speak of the simultaneous development, for example, of industry and agriculture, with priority to heavy industry -- a subtle change in phraseology, but representing a real change in policy. It must be stressed however, that this is a change in degree, and not in kind. Heavy industry will continue to get first priority, but not the absolute and overriding priority it once had.

Agriculture, which was for so many years neglected, now gets a larger share of investment funds than ever before. Such outlays are to double by 1960 as compared with 1955. In addition, the agricultural labor force is to be maintained in numbers and improved in skills. Additional income incentives have been provided to the collective farmers over the past 3 or 4 years, and it would not be surprising if there were more in the years ahead.

Two major new programs have been undertaken in the field of agriculture, the New Lands Program and the corn project. In combination, these schemes are designed to provide adequate supplies of bread grains while rapidly increasing fodder output to support ambitious goals for the production of livestock products. The New Lands Program involves the extension of cultivation into an area of 35 million hectares, about half in Siberia and half in Kazakhstan. Even though much of the New Lands is in distinctly marginal agricultural areas, where the risk of drought is very great the program has thus far been fairly successful. The USSR harvested the largest grain crop in its history in 1956, when weather in the New Lands was good, and harvests close to the previous record in 1955 and 1957, in spite of drought conditions in the New Lands. The corn project is being carried out largely in the traditional farming areas. It involves an increase in the area sown to corn from about 10 million acres in 1955 to about 70 million acres in 1960. The purpose is to provide feed for livestock so as to increase the production of meat, milk and other livestock products.

About a year ago, Khrushchev announced that the USSR planned to equal the US production of milk per capita by 1958 and the US production of meat per capita by 1960 or 1961. These goals will not be met, especially the one for meat. Nonetheless, substantial increases in milk production have been achieved and a considerably smaller increase in the production of meat. In 1957 the production of milk in the USSR in absolute terms was only slightly less than production in the US. The objective of the livestock program is to increase the quality of the Soviet diet. Although the Soviet diet is adequate in calories, it is a monotonous and uninspiring one, consisting overwhelmingly of grain and potatoes. As compared with the US,

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it is deficient in fats, oils, milk, and particularly in meat.

With respect to housing, Soviet history has been marked by serious housing shortages which developed primarily as a result of rapid urbanization and the low priority of housing construction. Heavy war destruction and the discouragement of private building accentuated the shortage. The original Sixth Five-Year Plan called for a substantial increase in housing construction by 1960. In 1956 only about one-eighth of the original program was achieved. In 1957, the housing goal was amended by 1½ million square meters. This was the first time in Soviet history that a housing goal had been met. Historically, housing has been allotted 25% of total construction funds; in 1957 housing got about 30%, and is expected to get 33% in 1960. On 1 July 1957, a decree was issued increasing the already ambitious Sixth Five-Year Plan goal by 13%. The decree aims to end the housing shortage within the next ten to twelve years. The construction of housing facilities competes directly with industry for raw materials, labor, and perhaps most important, for investment funds. The willingness of the Soviet leaders to go ahead with an ambitious housing program is therefore another significant indication of the way in which the absolute priority of heavy industry and defense has been modified.

On May 6 of this year, Khrushchev made a report to a plenary meeting of the central committee of the Communist Party dealing with an expansion of the chemical industry, particularly synthetics, and with increases in the production of consumer goods. The plenum decided on a more rapid development of the chemical industry, particularly in the output of artificial and synthetic fibers, plastics, and other synthetic materials, and items made from such materials, in order to satisfy the requirements of the population

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and industrial needs. The plan also decided on an increase in the production of such consumer goods as fabric, knitwear, and footwear, for the purpose of fully supplying the demand of the population for clothing, shoes and other goods within the next five or six years. The plan instructed the appropriate organizations to provide for the necessary capital investments in drawing up the new 7-year plan, and also for the necessary increases in the output of machinery and in research, development, and training. Here again we have an ambitious program which, though it will also contribute to the development of industry, is to benefit the consumer. The willingness of the Soviets to allocate the necessary resources, particularly of investment funds, is again an indication of the way in which economic priorities have been modified.

Khrushchev's speech of 6 May is an interesting and significant one. Not only did it make a lengthy and detailed claim for the superiority of the Soviet economic system over capitalism, but it presented both an exposition and a rationale for present Soviet economic policies. Khrushchev was especially intent on making clear that the traditional Soviet policy of giving priority to heavy industry had been correct and would be continued. He took great pains to justify the heavy sacrifices of the Soviet population for the sake of industrialization and argued that the Soviet State would have perished if any other policy had been adopted. He insisted that the future lessening of attention to heavy industry would be a grave mistake. He asserted, at the same time, that the current level of development of heavy industry, as well as achievements in science and technology, made it immediately possible to develop significantly faster tempo in the production of consumer goods without detriment to heavy industry.

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He attacked the Western enemies of Socialism who claimed that the Soviets were neglecting the consumer. The establishment of a heavy industrial base, he said, was the direct result of knowledgeable self-sacrifice by the "Soviet man", who could now expect a better life. As a matter of fact, the better life had already begun. Khrushchev claimed virtual success for the campaign to surpass the US in per capita production of milk and butter. He said the programs to rectify the long neglect of housing and agriculture had been successfully initiated with prospects for general success. Now he said the USSR would take care of clothing in the next few years, and that the detractors of the Soviet Union would be proven false in the eyes of the workers of the world.

Two other recent internal developments are worthy of mention at this point, even though they bear on how economic decisions are carried out rather than on the content of these decisions. I refer here to the decentralization of industrial management and to the drastic reorganization of the machine and tractor stations. These actions reflect, among other things, the greater flexibility of the present rulers of the USSR as compared with Stalin, and their willingness to tinker with the economic machine in the interest of greater efficiency. Also, they represent a change from the highly centralized form of control over economic activity which was the logical accompaniment of the ruthless and single-minded concentration on the development of heavy industry.

Until last year, most economic activity of national significance was controlled through specialized ministries set up in Moscow. Each of these ministries controlled a particular functional sector of the economy, as for example the chemical industry or the electrical industry.

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Generally speaking, decision making under this arrangement was highly centralized in Moscow, and economic activity rigidly compartmentalized. According to Khrushchev, this form of organization created artificial departmental barriers which weakened and often violated normal production links between different ministries in the same town or region and led to wasteful practices in construction. Moreover, it hampered large-scale specialization and cooperation in production, and stifled local initiative.

The new system of organization set up 105 councils of the national economy, each covering a particular region of the country. These councils were given control of most of the economic activity in their respective regions. The exceptions were: (1) certain key areas where control was retained at the center -- notably the defense industries, transportation and the chemical industry, (2) certain activities put under the control of Republic Councils of Ministers, (3) strictly local activity. This reorganization was expected to have at least short-run repercussions on the economy in the form of confusion, disorganization and the like, because of the far reaching nature of the change. Nonetheless, the Soviets were able to exceed their fairly modest goal for industrial production last year. Soviet leaders claim, moreover, that the industrial reorganization permitted a better performance in the second half of the year than in the first half.

The reorganization of the machine and tractor stations was decided upon just this year and is still in process of being implemented. Originally these stations served two principal purposes. First, they were an instrument of political control over the countryside. Second, they were a central repository of agricultural machinery and performed field and other

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work for the collective farms in exchange for payment in kind. As the Communist Party became better organized in the countryside, and as cells were set up on nearly all collective farms, the first of these two functions became much less important. Early this year Khrushchev proposed that the machinery held by the MTS be sold to the collective farms and that the MTS be converted to repair technical stations or RTS. He argued that most collective farms had grown into large and economically strong enterprises, which were technically much better equipped than in the past, and which now had cadres of trained specialists. Moreover, the income of collective farms and the material prosperity had grown rapidly. He reasoned that the role of the MTS as organizer of production had lessened and that the collective farmers could make better use of machinery than the MTS. In addition, the MTS were no longer necessary to convince the farmers of the advantages of large-scale collective farming or to serve as a source for the accumulation of grain. He therefore concluded that the time had come to end the situation in which there were two masters and two administration organizations on the same land, the collective farms and the MTS.

The reorganization of MTS's has just begun and has a long way to go before it can be completed. Khrushchev has again and again stressed the importance of proceeding slowly, pointing out that it will be some years before some of the weaker collective farms are ready to buy their own machinery. It is too early, therefore, to say what the consequences of this change will be. A priori, it seems perfectly clear, however, that this reorganization makes sense and that it should lead to an increase in efficiency in the countryside.

I should like to turn now to the recent developments in Soviet economic

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strategy and policy which affect the economic relations of the USSR with the rest of the world. I will discuss first the recent growth of Soviet trade with the Free World and second, the so-called Soviet Bloc economic offensive in the underdeveloped countries of the Free World. These two subjects are, of course, very closely related.

Under Stalin, Soviet economic relations with the Free World were held to a minimum. The country looked inward rather than outward. It pursued a policy of economic autarky in developing its economy, relying on the Free World for supplies and markets only where absolutely necessary. This policy reflected a deep-seated Soviet fear of losing economic independence through reliance on foreign sources of supply. After World War II, the trade of the Sino-Soviet Bloc countries with each other increased sharply and the trade of the newly Communist countries with the Free World dropped off sharply. The Bloc, as a whole, continued to follow a policy of autarky. Thus the recent growth in Soviet economic relations with the Free World represent a real departure from earlier policy.

Over the past two years Bloc trade with the West has increased considerably, far more rapidly, in fact, than the trade of the Bloc countries with each other. In the case of the USSR, about 70 percent of the increase in non-Bloc trade in 1957 was with the industrial nations of Western Europe. Under agreements such as the one just concluded with West Germany, this trade is likely to expand even more.

Not only has Soviet trade increased in quantity in the past year or two, but it has also experienced a very interesting and significant change in composition. For to an increasing and unprecedented extent, the USSR is turning to the sale of basic raw materials, such as aluminum, tin,

min, and ferrocilloys. Until very recently Western European countries purchased only minute quantities of such commodities from the Sino-Soviet Bloc, relying principally on other Free World countries for their supplies. In the last year or two, however, Western purchases have increased sharply. Aluminum furnishes a good example. Prior to 1955 neither the USSR nor the other Bloc countries sold aluminum outside the Soviet Bloc. In 1955 the USSR exported 5,000 metric tons to Western Europe and in 1956, 10,000 metric tons. (On the basis of preliminary data, Soviet exports were about 24,000 metric tons in 1957.

Recent speeches by Soviet leaders such as Khrushchev, Mikoyan, and Deputy Foreign Minister Zakharev, have stressed the desire of the USSR to increase trade with the Free World even further. In fact, Khrushchev has challenged the US to increase trade in much the same way that he has challenged the US in the growth of per capita production. Just recently he remarked: "to the slogan that says 'let us arm' we would reply with the slogan 'let us trade'". Last month Zakharev told the United Nations Economic Commission for Europe that Western trade ministers should devote their energies to bringing about a long-run increase in East-West trade. He expressed particular interest in the export of machinery for the manufacture of consumer goods.

It is quite possible that in the years to come the USSR will become a major source of many commodities for Western Europe. A few months ago the USSR announced a series of goals for key commodities in the year 1972, which approach or exceed present US production. If these goals are reached or even approached, it is probable that the USSR will have large quantities of goods available for export. Petroleum is a good example. By 1972

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the Soviets plan to produce as much crude oil as we in the US do today. Even allowing for a substantial increase in domestic consumption, they might be able to export as much as 2 million barrels per day. This figure compares with present Western European oil imports of 3 million barrels per day.

Increases in Soviet trade with the Free World are really not as surprising as they might seem at first glance. For one thing, the USSR has developed its manufacturing capacity to a point where it can now export many types of industrial equipment in exchange for needed imports. In addition, the strength of their economy appears to have reduced Soviet fears of losing economic independence through reliance on foreign sources of supply. The Soviet leaders apparently have come to realize that some small reliance on the Free World for foodstuffs and raw materials is preferable to a rigid policy of austerity, since it offers the promise of more rapid rates of economic growth. In addition, they see opportunities for encouraging political attitudes favorable to the USSR and for weakening existing political and military alignments in the Free World.

This last point leads me to a discussion of Sino-Soviet Bloc economic activities in the underdeveloped countries of the Free World. The Bloc economic offensive in these countries has been in the form of medium-term loans and credits for the purchase of both military and industrial equipment. The loans are at low interest rates, and generally permit repayment in commodities. The non-military loans are usually for industrial development projects, especially in the primary processing and basic industries; in effect, the USSR has for the first time become a competitor of the Free World in the export of capital. Loans are typically part of a

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packages which also includes technical assistance agreements and trade agreements.

Several other points regarding the Bloc economic offensive are worthy of mention, including some Bloc-US comparisons. First, Bloc loans for economic development usually cover only foreign exchange costs, and not the total cost of the projects for which they are made. Hence, the borrowing country must supply the balance from its own resources. This often creates an internal strain, because of high domestic costs and lack of capital. The US, by contrast, frequently lends the total cost of an industrial development project. A typical US procedure is to provide surplus agricultural commodities for the borrower to sell internally as a device for securing the necessary internal funds. Second, Bloc loans to underdeveloped countries have not been tied to military pacts, even though a large fraction of total Bloc loans have been for the purchase of military equipment. Third, as I have suggested above, Bloc loans usually permit repayment in commodities. (Quite often, these commodities are the ones produced by the plants for which the loan was made. This is a convenient arrangement for the borrowing country, because the loan creates its own basis for repayment, and the USSR is provided with needed commodities. The US is much less willing to accept commodities, whether or not those of the plant being financed. Finally, the Bloc has thus far scrupulously carried out the terms of its agreements with underdeveloped countries. By and large, the Bloc has met its commitments in full and on time; when mistakes have been made, the Bloc has done its best to correct them. Moreover, the Bloc has been careful not to interfere in the internal affairs of the recipient countries. As far as we can determine, for example, the Bloc

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is not using the technological assistance terms to subvert the countries to which they are sent.

The Bloc economic offensive began in 1954, and went into high gear in 1955. In total, the Sino-Soviet Bloc has extended almost 2.2 billion dollars in credits and grants. Of this amount, the USSR has provided about 1.3 billion, the European Satellites 760 million, and Communist China 90 million. Nearly 1.7 billion of the credits and grants have been earmarked for the purchase of Bloc equipment and materials or for other economic development purposes, and the balance, or about 500 million dollars, for military equipment.

Egypt, Yugoslavia, India, Syria, Afghanistan, and Indonesia have been the principal recipients of Bloc credits. Together they account for over 90% of the total extended. Egypt has received over 500 million dollars, Yugoslavia more than 450 million dollars, India and Syria 300 million dollars each, Indonesia more than 200 million dollars, and Afghanistan more than 150 million dollars. Twelve other countries account for the remaining 10%.

This economic offensive has many attractions for the Sino-Soviet Bloc. First of all, it serves as a device for bringing the uncommitted and newly developed areas of the world closer to the Bloc camp, and for separating them from the West. Second, it provides the Bloc with a source of raw materials for its industry, some of which are in short supply domestically, and with such needed agricultural commodities. Third, the underdeveloped countries become a market for the products of Soviet heavy industry, whose growth now permits the export of industrial equipment in exchange for needed imports.

Why are the underdeveloped countries susceptible to the Bloc offensive? First of all, there is a tremendous pressure for economic betterment in these countries. The people as well as the leaders are convinced that this requires rapid industrialization, and they are willing to turn almost anywhere to get it. Second, Soviet offers have particular appeal because the USSR itself was until recently an underdeveloped country. There is a tendency for many of the newly independent countries to feel that the Kremlin has a new and magic formula for quick industrialization. They are inclined to believe the Soviet line that industrialization by free enterprise methods took 150 years in the Western world and the US, and that they can't wait that long.

The words of Milovan Djilas come to mind in this connection -- the same Djilas who is now in a Yugoslav jail. As you know, orthodox Communists believe that Communism, because it is a universal truth, must triumph universally. Djilas, however, argues differently. He believes that Communism does not make much sense, or enjoy much chance of ultimate success, in countries which have already experienced an industrial revolution, which Djilas views as an inevitable and logical necessity of society. But in countries which have not, Communism becomes the vehicle for carrying out the industrial revolution. If Djilas is even half right, the ultimate dangers to the US of the Bloc economic offensive are only too clear.

In the analysis above I have discussed the very real achievements of the USSR, its growing power and its rapid rate of progress. I have also discussed some of the recent changes in economic policy, which in many respects have tended to make the USSR even more formidable. In order to balance this picture, I would like to conclude with a discussion of some

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of the problems faced by the USSR, many of which were created by their rapid industrialization or are a consequence of the recent changes in economic policy.

Perhaps the most serious problem facing the USSR is that of the proper balance between freedom and authority. Rapid industrialization required a complete mobilization of the economic resources of the country and the use of highly authoritative techniques for allocating them. It is hardly likely that the Soviet people would voluntarily have made the sacrifice required of them during the past 30 years. However, as the USSR became industrialized and developed a complicated economic machine, the premium on local and individual initiative grew correspondingly, as did the importance of material incentives as opposed to force. The changes in economic policy since the death of Stalin have given greater scope to these elements. Indeed, they reflect a growing conviction that a modern industrial economy cannot forever be operated using the harsh and authoritative methods of a Stalin. The basic problem for the Soviet leaders is how far individual initiative and the reliance on material incentives are to go. The more they are used, the better the shining new economic machine operates, but there is a danger that the process will get out of control. For example, it is possible that the Soviet people will become preoccupied with material things and with improving their standard of living, and lose their interest in Communism and the triumph of socialism over capitalism. They may demand more of the good things of life than the Soviet leaders are willing to give them. As material betterment is actually achieved, the country and the party may lose their revolutionary aim; the USSR may become a much less dynamic and revolutionary

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force than it now is. The Soviet leaders would hardly wish this to happen.

This dilemma is made more acute by the growth of education in the USSR. The USSR, in order to meet the needs of its developing industry and society, has turned out large numbers of scientists, engineers, teachers, industrial managers, and the like. The problem for the Soviet leaders arises from the fact that such people tend to be of an inquiring and questioning turn of mind. As a result, the great growth in education may build up generations of people who are more and more inclined to question the basic tenets of Communism and less and less willing to tolerate authoritarianism. We have had a number of reports of growing restlessness bordering on ideological revolt in the USSR, particularly among students and other members of the intelligentsia. There is no evidence, however, that this restlessness is getting out of control, or that it threatens the regime. Most possibly, though, this problem may become more serious later on.

The recent reorganization of the control of industry, and possibly also the reorganization of the MVD, may produce tensions similar to those just discussed. Any move toward decentralization has built-in dangers for any dictatorship, such as that of the Kremlin today.

Another danger arises from Khrushchev's repeated promises to his people of startling improvements in their diet and in the availability of housing and consumer goods. The realization of improvements in the diet depends on a precarious agricultural base, whose crops are in large areas vulnerable to drought. Increases in housing and in the output of consumer commodities will require the diversion of investment funds from heavy industry and the defense establishment. If the Soviet leaders do not make good of their

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problems to the consumer, they will almost surely introduce another element of instability into their society.

The fact that the Soviet leadership faces these and other problems does not of course detract from the achievements described earlier. Moreover, the leadership has faced even more serious problems and surmounted them. The programs to improve the lot of the farmer and of the consumer are seriously intended, and they will require substantial economic resources. Nonetheless, they can probably be carried out without seriously altering the general tempo of the present industrial and military program, with their emphasis on heavy industry and military power. Soviet economic policy has been modified, but it still leaves plenty of room for the further development of the second most important industrial country in the world today.